

Conditions of Work and Employment Programme

***Minding the gaps:
Non-regular employment and labour market segmentation
in the Republic of Korea***

Byung-Hee Lee
Korea Labor Institute

Sangheon Lee
International Labour Office

Copyright © International Labour Organization 2007

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to the Publications Bureau (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered in the United Kingdom with the Copyright Licensing Agency, 90 Tottenham Court Road, London W1T 4LP [Fax: (+44) (0)20 7631 5500; email: cla@cla.co.uk], in the United States with the Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923 [Fax: (+1) (978) 750 4470; email: info@copyright.com] or in other countries with associated Reproduction Rights Organizations, may make photocopies in accordance with the licences issued to them for this purpose.

ISBN 978-92-2-120417-6 (printed version)
ISBN 978-92-2-120418-3 (web .pdf version)

First published 2007

Cover: DTP/Design Unit, ILO

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. Catalogues or lists of new publications are available free of charge from the above address, or by email: pubvente@ilo.org
Visit our website: www.ilo.org/publns

Printed by the International Labour Office, Geneva, Switzerland

Contents

| | <i>Page</i> |
|---|-------------|
| Preface..... | v |
| 1. Introduction | 1 |
| 2. Non-regular employment in the Republic of Korea: Definition and size..... | 3 |
| 3. Widening gaps in employment conditions | 9 |
| 3.1 Earning gaps..... | 9 |
| 3.2 Corporate benefits and social security | 12 |
| 3.3 Working hours gaps | 13 |
| 4. Non-regular employment and wage discrimination | 17 |
| 5. Involuntary non-regular employment and transitions to regular employment | 21 |
| 6. Concluding remarks | 25 |
| References | 27 |

Preface

With the growing emphasis on the need for greater flexibility in the labour market, employment patterns have been increasingly diversified, not only in industrialized countries, but also in developing countries where non-standard employment – such as informal employment – is already widespread. Therefore, it should come as no surprise that many governments and social partners around the world have been debating on the nature and causes of growth in non-standard employment and are introducing a range of policy measures which are normally intended to make a better balance between flexibility and protection. Yet it still remains unclear what is “too much” in terms of the type and proportion of non-standard employment, and what measures would be more effective than other options in addressing the challenges associated with non-standard employment.

These questions and challenges are particularly relevant to the Republic of Korea, which has witnessed a sharp increase in non-standard employment, such as fixed-term employment. The authors of this paper, Byung-Hee Lee and Sangheon Lee, investigate the Korean case, while taking into account the on-going debates on non-standard employment around the world. They show that the definition of non-standard employment (the term “non-regular employment” is used in the Korean context), its size and its causes remain controversial in the Republic of Korea. Considering the heterogeneity of non-regular employment, they attempt to investigate job quality for different groups of non-regular workers. In doing so, wages and incomes, working time and social security coverage are considered. As this paper shows clearly, the gaps between these groups have widened and a significant part of such gaps may be attributed to discrimination. It is also shown that upward mobility, measured by the likelihood for non-standard and disadvantaged workers to move to regular jobs, is very limited. This points to the risk of “non-regular employment as a trap” in the Republic of Korea.

It is hoped that this paper will provide new insights on our understanding of non-standard employment and contribute to global efforts to develop better policy measures.

Manuela Tomei,
Chief,
Conditions of Work and Employment Programme,
Social Protection Sector

1. Introduction

Non-regular (or “non-standard”)¹ employment has been on the increase in many parts of the world and its causes and consequences have been widely discussed. This issue has gained considerable importance due to its implications for employment protection regulations: one popular hypothesis proposed in the debate is that stricter employment protection for regular workers is associated with a higher incidence of non-regular employment due to its financial burdens incurred in employing regular workers (e.g. Booth, Dolado and Frank, 2002; OECD, 2002). While evidence still remains inconclusive, recent reviews appear to indicate that the impacts of employment protection laws have been overstated (e.g. OECD, 2006).

Another important question, which has attracted much attention from researchers, is the consequences of non-regular employment, especially in terms of employment conditions such as wages, benefits and working time. This is inherently associated with the observation that non-regular workers suffer inferior conditions and some policy measures are required to address the quality gaps. How to evaluate the quality of non-regular employment is also an important question in addressing the argument that non-regular employment reflects workers’ need for flexibility and can basically be “voluntary”. It is increasingly clear that the degree of “voluntary choice”, typically taken from satisfaction data, needs to be carefully evaluated taking into account job quality data. Another related issue is concerned with “dead-end” or “stepping stone” jobs: if some degree of numerical flexibility is needed to improve labour market efficiency and non-regular employment with inferior quality is somewhat inevitable, it may be necessary to prevent workers from being trapped into non-regular jobs. Here again, evidence about transition from non-regular to regular jobs is mixed (e.g. Booth, Francesconi and Frank, 2002).

Despite the increasing importance attached to it, however, the issue of non-regular employment is not easy to tackle. Three problems, among others, need to be mentioned. First, as often pointed out, non-regular employment is exceedingly heterogeneous, and different types of non-regular employment — such as temporary, part time, on-call and “independent” contract — have little in common, except the fact that they do not fall within the category of “regular” employment. Secondly, certain types of non-regular employment — such as temporary work — are commonly found across countries, but its contents are so different that a meaningful cross-country comparison, especially in terms of its incidence, would not be possible (e.g. “casual” employment in Australia). Finally, focus has been placed on Europe, the United States and Australia, and not much attention has been paid to other countries (e.g. Asia and Latin America) where non-regular employment has emerged as the key social concern. In fact, the “casualization” of employment appears to be a universal global phenomenon.

The recent Korean experience provides useful insights on the issues mentioned above. The Korean case is particularly interesting in three aspects. First, the sheer size of non-regular employment is amazingly large and has been increasing. Although an internationally comparable definition of non-regular employment is not available, it is reported that the Republic of Korea has the second highest incidence of non-regular employment among OECD countries (OECD, 2005a). It is also interesting to note that such increases in non-regular employment coincided with the neo-liberal reforms which had been undertaken as a way of overcoming the financial crisis in the late 1990s.

¹ In this paper, the term “non-regular employment” is distinguished from “non-standard” employment to capture the complexity of employment arrangements in the Republic of Korea. For details, see Section 2.

Secondly, non-regular employment is complex, including diverse types of employment such as “dispatched” workers, who are different from temporary help agency workers. The complexity and heterogeneity of non-regular employment appears to have contributed to creating confusions in developing policy measures in the Republic of Korea. Finally, given the size of non-regular employment and the context in which the increasing trend was observed, attempts have been made to collect more reliable statistics on non-regular employment. The best example of this would be the Supplementary Survey of Economically Active Population (henceforth, SSEAP), which has been undertaken since 2000. These survey data provide a good opportunity to address key questions relating to non-regular employment.

In light of these, this paper aims to examine trends in non-regular employment and related issues in the Republic of Korea, based on SSEAP data. In doing so, it will be argued that the labour market is further segmented along different types of non-regular employment, and such segmentation or fragmentation is clearly demonstrated in job quality gaps. Section 2 will discuss different understandings and definitions of non-regular employment in the Republic of Korea and attempt to develop a conceptual framework which classifies employment into three main categories: regular, non-standard and disadvantaged. Non-regular employment refers to the latter two groups. The size of non-regular employment will be estimated and the demographic characteristics will be described. Section 3 will investigate gaps in working conditions between regular and non-regular workers. For a more rigorous analysis of these gaps, Section 4 will estimate wage differentials between different employment arrangements and how much can be attributed to discriminative treatments against non-regular workers. In the presence of the considerable gaps between regular and non-regular employment, Section 5 will discuss why non-regular workers have taken their current jobs, whether or not the decisions are of a voluntary nature, and finally the extent to which the “unhappy” non-regular workers succeeded in moving to regular jobs. The paper will conclude in Section 6.

2. Non-regular employment in the Republic of Korea: Definition and size

Since about 1999, non-regular employment has been on the increase and has become a key social issue in the Republic of Korea, inviting contrasting views on its causes. Echoing the debates on the impact of employment protection laws on employment in other industrialized countries, employers have argued that the use of non-regular workers was the consequence of over-protecting regular workers. Although the labour law was revised in February 1998 to legalize redundancy dismissals, this measure was partial and the legal restrictions on employment adjustment have remained prohibitive.² It has also been suggested that, as regular workers are “expensive” due to the widespread practice of seniority wages, employers have been hiring non-regular workers to survive an even more competitive market environment. Finally, insiders’ “rent-seeking activities” have been blamed: as labour unions organizing regular employees in large firms have been pressing desperately to prohibit collective dismissals and to increase the wages and welfare of their members, employers have been compelled to hire non-regular workers.

By contrast, from the unions’ perspective, the rapid increase in non-regular workers has been the result of employers’ heavy reliance on employment flexibility: employers have blatantly used non-regular workers to reduce labour costs and to ensure easy dismissals so as to improve profitability. In addition, labour leaders have noted that the increase in non-regular workers has the effect of weakening the labour movement by dividing workers and reducing union membership. In fact, union density stands less than 10 per cent in the Republic of Korea.

The definition and measurement of non-regular employment has been controversial as well. Different definitions have yielded different estimates and analytic results, although data sources are the same (Choi, 2001; Ahn, 2004; Kim, 2004). Two major definitions of non-regular employment, which reflect the heterogeneity among non-regular employment as well as its causes, have been suggested and commonly applied. These two definitions correspond to minimum and maximum estimates respectively.

The first definition (“types of employment”), which yields a conservative estimate, is drawn from the assessment that the expansion of non-regular employment was a natural result of individuals’ and employers’ increased demand for flexibility in working patterns. According to this view, paid employment can be divided into two categories: standard and non-standard employment. Standard workers refer to full-time, permanent and directly employed workers, and non-standard workers are those who do not fall within the category of standard employment. While non-standard employment is defined in terms of “residuals”, it includes various distinct groups which can be further classified by multi-dimensional criteria (e.g. the possibility of maintaining long-term employment; usual working time; relationship between employer, user and employee; regularity of work; where he/she works). Normally, non-standard employment includes seven groups: contingent workers,³ including fixed-term workers; part-time workers;⁴ dispatched

² In practice, redundancy dismissals have been rare. However, alternative methods of employment adjustment, such as resignations by employers’ recommendations and early retirement packages, have become more prevalent.

³ According to the Korean Ministry of Labor, contingent employees are those who hold fixed-term contracts or whose contract cannot be expected to continue for involuntary reasons.

⁴ Part-time workers are employees who work less than 36 hours a week.

workers;⁵ temporary help agency workers;⁶ independent contracts;⁷ on-call/daily workers; teleworkers/home-based workers. We call this criterion of defining non-regular employment “types of employment”. By this definition, non-standard workers covered 35.5 per cent in total paid employment in 2006.

The alternative definition (“status in employment”) is intended to highlight the fact that non-regular workers experience considerable discrimination treatment or inferior working conditions. The first thing to be noted here is the fact that, according to SSEAP, in 2006 the share of employees who had a written employment contract was merely 41.4 per cent. The work contract is, in most cases, based on a non-written agreement between employer and employees. This implies substantial difficulties in identifying employment conditions for the majority of workers. In this regard, one important criterion which was introduced by the National Statistical Office in determining temporary employment (as part of “status in employment”),⁸ is whether or not the worker is expected to receive corporate and social fringe benefits. If an employee is not eligible for a retirement allowance from the employer or social insurances benefits, he/she is classified as a temporary employee even when his/her employment contract is without a fixed term. In this way, non-regular employment is broadened to include two additional groups of temporary and daily workers who would be considered as being in “standard” employment in the first definition. In this broadened definition, the share of non-regular workers was 56.7 per cent in 2006.

Although the varying definitions result in large differences in the estimate of non-regular workers (hence, having great political implications), a better understanding of the complexity of non-regular employment in the Republic of Korea needs both “types of employment” and “status in employment” as classification criteria (hereafter called “employment arrangements”). In other words, both treatments in employment conditions as well as the differences in types of employment should be taken into account.⁹ Therefore, it is very useful to introduce a matrix table with these criteria, which enables us to identify three groups of workers (paid employees): regular, non-standard and

⁵ Dispatched employment is, as a kind of indirect employed employment, mediated by temporary work agencies. This type of employment is subject to the Dispatched Workers Law.

⁶ Temporary help agency work is another kind of indirect employed employment, but is distinguished from dispatched employment in that the former is not yet subject to any law.

⁷ Independent contractors are seemingly self-employed, such as free-lancers.

⁸ Employees are classified into three categories: regular, temporary and daily employees. Regular employees are defined as “workers with employment contracts for one year or longer” and/or “workers who have worked for one year or longer and are entitled to fringe benefits, such as legal retirement allowance and bonus”. Temporary employees are defined as employees who have an employment contract lasting between one month and one year. Daily employees are employees with employment contracts for less than one month.

⁹ The resolution concerning the International Classification of Status in Employment (ICSE-93), adopted by the Fifteenth International Conference of Labour Statisticians in 1993, proposes both types of employment and differences in working conditions as classification criteria of paid employment. According to ICSE-93, employees with stable contracts include regular employees (cf. paragraph 4.1). Employees with stable contracts are those employees who have had, and continue to have, an explicit or implicit contract of employment, or a succession of such contracts, with the same employer on a continuous basis. Regular employees are those employees with stable contracts for whom the employing organization is responsible for payment of relevant taxes and social security contributions and/or where the contractual relationship is subject to national labour legislation (cf. paragraph 8.1).

disadvantaged workers (see Table 1). Regular workers are defined as employees with regular employment status and whose type of employment is “standard”. They hold jobs that are permanent or are expected to continue employment, and are entitled to company benefits and social security system. This type of employment concerns 43.3 per cent of total employees in 2006.

Table 1: Components of paid employment (August 2006)

(Unit: %)

| | | <i>Status in employment</i> | |
|---------------------|--------------|------------------------------|-------------------------------|
| | | Regular | Temporary and daily |
| Types of employment | Standard | Regular workers (43.3%) | Disadvantaged workers (21.2%) |
| | Non-standard | Non-standard workers (35.5%) | |

Source: National Statistical Office, Supplementary Survey of Economically Active Population.

Non-standard workers are workers with alternative employment arrangements, as discussed above (“types of employment”). These workers constitute 35.5 per cent of total paid employment. The category of “disadvantaged workers” reflects the concerns underlying the second definition (“status in employment”). Disadvantaged workers are those who have a “standard” type of employment but do not enjoy corporate and social benefits. In other words, they work as standard workers but are treated like non-regular workers with regard to corporate and social compensations. The term “disadvantaged” refers to this latter aspect. They account for 21.2 per cent of paid employees.

It should be noted that this typology is useful in discussing policy measures for non-regular workers who are heterogeneous in nature. For example, the disadvantaged workers are less protected through labour law, corporate and social benefits. Thus, the major direction of policy for these workers should be anti-discrimination policy. The policies on non-standard workers need to take into consideration the nature of their jobs, such as diverse employment arrangements.

Table 2 presents the trends in the compositions of workers for three different classifications. First of all, for several years after the financial crisis in 1997, temporary and daily workers accounted for more than half of employed workers. Although the share of temporary and daily workers is in a downward trend now, it has remained higher than the pre-crisis level. Second, the share of non-standard workers rose from 26.8 per cent in 2001 to 35.5 per cent in 2006, which is mainly due to increases in contingent workers. Finally, according to the “employment arrangements” classification proposed in this paper, the share of non-standard workers increased while the share of disadvantaged workers declined. The share of regular employment has been relatively stable. This suggests that many disadvantaged workers made the transition to contingent jobs, as will be discussed later in Table 12. This compositional change within non-regular employment appears to be associated with the increasing incidence of written employment contracts (faced with social concerns about non-regular workers) which has induced employers to offer non-standard, rather than regular, contracts to avoid labour cost increases.

Table 2: Trends in compositions of paid employment

(Unit: %)

| | | 1996 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|-----------------------------|--------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total | | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Employment arrangements (1) | Regular workers | | | | 44.8 | 43.1 | 43.7 | 41.7 | 42.8 | 43.3 |
| | Disadvantaged workers | | | | 28.4 | 29.5 | 23.7 | 21.3 | 20.5 | 21.2 |
| | Non-standard workers | | | | 26.8 | 27.4 | 32.6 | 37.0 | 36.6 | 35.5 |
| Status in employment (2) | Regular workers | 56.8 | 48.4 | 47.9 | 49.2 | 48.4 | 50.5 | 51.2 | 52.1 | 52.8 |
| | Temporary workers | 29.6 | 33.6 | 34.5 | 34.6 | 34.5 | 34.7 | 34.1 | 33.3 | 33.1 |
| | Daily workers | 13.6 | 18.0 | 17.6 | 16.2 | 17.2 | 14.8 | 14.7 | 14.6 | 14.2 |
| Types of employment (3) (4) | Standard workers | | | | 73.2 | 72.6 | 67.4 | 63.0 | 63.4 | 64.5 |
| | Non-standard workers | | | | 26.8 | 27.4 | 32.6 | 37.0 | 36.6 | 35.5 |
| | Contingent workers | | | | 13.8 | 14.7 | 21.3 | 24.7 | 24.1 | 23.6 |
| | Part-time workers | | | | 6.5 | 5.7 | 6.6 | 7.3 | 7.0 | 7.4 |
| | Dispatched workers | | | | 1.0 | 0.7 | 0.7 | 0.8 | 0.8 | 0.9 |
| | Temporary help agency workers | | | | 2.3 | 2.4 | 2.4 | 2.8 | 2.9 | 3.2 |
| | Independent contractors | | | | 6.0 | 5.5 | 4.2 | 4.9 | 4.2 | 4.0 |
| | Teleworkers/home-based workers | | | | 1.9 | 1.7 | 1.2 | 1.2 | 0.9 | 1.1 |
| | On-call/daily workers | | | | 2.2 | 2.9 | 4.2 | 4.6 | 4.8 | 4.3 |

Notes: (1) Classified by both type and status of employment in this study. (2) Classified by the National Statistical Office. (3) Classified by the Ministry of Labour. (4) Subcategories of non-standard employment are not mutually exclusive.

Source: National Statistical Office, Supplementary Survey of Economically Active Population.

It has been reported that non-regular employment is not equally distributed among different demographic groups, but tends to concentrate on vulnerable groups of workers (Booth, Dolado and Frank, 2002; Eyraud and Vaughan-Whitehead, 2007). If this is the case, non-regular employment has the effect of trapping vulnerable groups into precarious jobs with poor quality (OECD, 2002). To examine this possibility for the Republic of Korea, Table 3 provides individual and demographic characteristics of regular, disadvantaged and non-standard workers. First, female workers are more likely to have a non-standard job or to be discriminated against in terms of working conditions. The ratio of regular employment is merely 30.8 per cent for females, while it is 52.3 per cent for males. Older workers are over-represented among both non-standard and disadvantaged jobs. This suggests that older workers, once separated from their regular jobs before their mandatory retirement ages, may end up in non-regular jobs. Furthermore, educational attainments are a powerful factor determining the likelihood of regular employment. In 2006, about 71 per cent of workers with a university education had regular employment, while the ratio is extremely low at 13 per cent for those with an elementary education. Non-standard work is common across industries. The agriculture and construction industries show a higher incidence of non-standard work, while the personal and distributive service industries have a higher proportion of disadvantaged workers. This implies the important role of the service sector in generating non-regular work. In fact, more than 50 per cent of disadvantaged workers are concentrated in personal and distributive services. By occupations, non-standard work is more common for manual, service and sales workers, while it is rather uncommon for managers and professionals. As discussed, service and sales workers are more likely to be disadvantaged workers. Regular jobs are rare among service workers (16.5 per cent), sales workers (11.5 per cent) and

labourers (13.2 per cent). Not surprisingly, non-standard or disadvantaged work prevails in small firms. Only 12.3 per cent of workers in firms with less than five employees have regular jobs, while the ratio stands at 76.8 per cent for large firms with more than 300 employees. The majority of non-regular jobs are created in SMEs (i.e. small enterprises with less than ten employees). In sum, it can be said that non-regular work (disadvantaged and non-standard work) falls disproportionately on vulnerable groups of workers, such as female, older, less-educated, low-skilled workers, and SME workers.

Table 3: Incidence and distribution of employment arrangements by individual and job characteristics (percentage, 2006)

| | | <i>Incidence (1)</i> | | | <i>Distribution (2)</i> | | |
|-----------------|--|----------------------|---------------|--------------|-------------------------|---------------|--------------|
| | | Regular | Disadvantaged | Non-standard | Regular | Disadvantaged | Non-standard |
| Total | | 43.3 | 21.2 | 35.5 | 100.0 | 100.0 | 100.0 |
| Gender | Male | 52.3 | 17.4 | 30.4 | 70.1 | 47.5 | 49.6 |
| | Female | 30.8 | 26.5 | 42.7 | 29.9 | 52.5 | 50.4 |
| Age group | 15-29 | 41.1 | 25.9 | 33.0 | 24.1 | 31.0 | 23.5 |
| | 30-54 | 47.8 | 19.8 | 32.5 | 70.6 | 59.6 | 58.4 |
| | 55-64 | 26.9 | 18.8 | 54.4 | 4.9 | 7.0 | 12.1 |
| | 65+ | 6.9 | 17.9 | 75.2 | 0.5 | 2.4 | 6.0 |
| Education level | Elementary | 13.2 | 24.7 | 62.1 | 2.5 | 9.4 | 14.2 |
| | Middle | 20.0 | 30.1 | 49.8 | 4.3 | 13.3 | 13.1 |
| | High | 36.6 | 26.9 | 36.5 | 36.3 | 54.3 | 44.1 |
| | Two-year college | 52.4 | 18.5 | 29.1 | 15.5 | 11.2 | 10.5 |
| | College | 66.0 | 10.0 | 24.0 | 35.3 | 10.9 | 15.6 |
| | Graduate school | 70.6 | 5.1 | 24.3 | 6.1 | 0.9 | 2.6 |
| Industry | Agriculture, fishing, etc. | 7.9 | 15.0 | 77.0 | 0.2 | 0.6 | 1.8 |
| | Manufacturing | 60.2 | 19.5 | 20.3 | 31.5 | 20.9 | 12.9 |
| | Utilities | 79.7 | 5.3 | 15.0 | 0.9 | 0.1 | 0.2 |
| | Construction | 25.7 | 16.4 | 58.0 | 5.2 | 6.8 | 14.4 |
| | Personal services | 10.1 | 45.9 | 43.9 | 2.7 | 24.6 | 14.1 |
| | Distributive services | 40.9 | 30.2 | 28.9 | 18.4 | 27.6 | 15.8 |
| | Producer services | 37.7 | 10.7 | 51.6 | 14.4 | 8.3 | 24.0 |
| | Social services | 58.2 | 11.8 | 30.0 | 26.8 | 11.0 | 16.8 |
| Occupation | Management | 80.9 | 2.4 | 16.6 | 3.2 | 0.2 | 0.8 |
| | Professionals | 68.7 | 7.6 | 23.7 | 17.1 | 3.8 | 7.2 |
| | Technicians and associated professions | 58.4 | 14.2 | 27.4 | 16.4 | 8.1 | 9.3 |
| | Clerks | 62.7 | 13.0 | 24.2 | 28.7 | 12.2 | 13.5 |
| | Service workers | 16.5 | 43.0 | 40.5 | 3.9 | 20.8 | 11.7 |
| | Sales workers | 11.5 | 38.2 | 50.3 | 1.9 | 12.9 | 10.1 |
| | Farming, fishing, etc. | 13.0 | 24.0 | 63.1 | 0.1 | 0.4 | 0.6 |
| | Crafts and related trades | 31.2 | 26.6 | 42.2 | 8.1 | 14.1 | 13.3 |
| | Machine operators, etc. | 59.6 | 20.4 | 20.0 | 16.0 | 11.2 | 6.5 |
| | Simple labourer | 13.2 | 23.1 | 63.7 | 4.6 | 16.3 | 26.9 |
| | | | | | | | |
| Size of firm | 1-4 | 12.3 | 41.1 | 46.6 | 5.7 | 38.9 | 26.3 |
| | 5-9 | 28.7 | 32.7 | 38.5 | 11.1 | 25.9 | 18.2 |
| | 10-29 | 42.5 | 19.7 | 37.8 | 20.9 | 19.8 | 22.6 |
| | 30-99 | 56.8 | 10.4 | 32.8 | 25.9 | 9.7 | 18.2 |
| | 100-299 | 64.3 | 8.0 | 27.7 | 15.1 | 3.8 | 7.9 |
| | 300+ | 76.8 | 3.2 | 20.0 | 21.3 | 1.8 | 6.8 |
| | | | | | | | |

Note: (1) Percentage of each employment arrangement in different groups. The figures in each row add up to 100.0. (2) Percentage distribution of employment arrangements across different groups. The figures in each column add up to 100.0.

Source: National Statistical Office, Supplementary Survey of Economically Active Population.

3. Widening gaps in employment conditions

3.1 Earning gaps

We have shown that non-regular employment has increased in the Republic of Korea, with a compositional shift to non-standard employment (away from disadvantaged employment), and that it tends to concentrate on vulnerable groups of workers in the labour market. This trend has been seen as extremely worrying, especially due to the fact that non-regular work carries inferior employment conditions. Then, the question is how wide are the gaps that exist between regular and non-regular workers and, more importantly, if there is any sign of narrowing these gaps. This section turns to these questions.

As far as wage earnings are concerned, it is obvious that non-regular workers suffer substantial wage “penalties”. As Table 4 shows, disadvantaged and non-standard workers are paid slightly more than half of the average wages of regular workers. In 2006, the relative wage level (compared with regular workers) was 51.6 per cent for disadvantaged workers and 52.8 per cent for non-regular workers. It is remarkable that disadvantaged workers have experienced cuts in their relative wages by 3 percentage points over the last five years. Relative wages for non-standard workers have remained relatively stable.

Table 4: Monthly wages by employment arrangements

(Unit: 1,000 Korean won, %)

| | <i>Regular</i> | | <i>Disadvantaged</i> | | <i>Non-standard</i> | |
|------|----------------|---------|----------------------|--------|---------------------|--------|
| 2001 | 167.1 | (100.0) | 91.3 | (54.7) | 87.4 | (52.3) |
| 2002 | 179.0 | (100.0) | 96.8 | (54.1) | 97.7 | (54.6) |
| 2003 | 201.6 | (100.0) | 105.5 | (52.3) | 102.8 | (51.0) |
| 2004 | 211.8 | (100.0) | 109.2 | (51.6) | 115.2 | (54.4) |
| 2005 | 219.9 | (100.0) | 110.8 | (50.4) | 115.6 | (52.6) |
| 2006 | 227.0 | (100.0) | 117.1 | (51.6) | 119.8 | (52.8) |

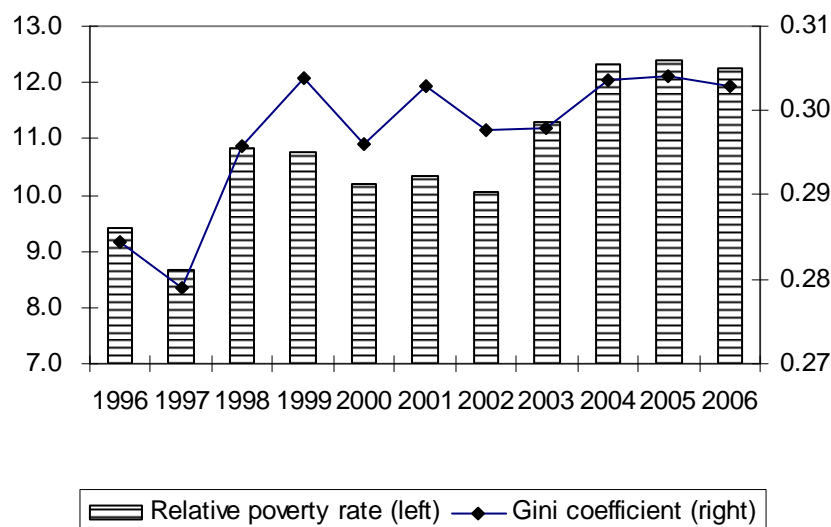
Note: The numbers in parenthesis are the relative wage levels compared with that of regular workers.

Source: National Statistical Office, Supplementary Survey of Economically Active Population.

Along with increases in non-regular employment and growing wage inequality, income distribution has worsened. The market income inequality, measured by the Gini coefficient for the salary and wage-earners’ households suddenly increased to 0.304 in 1999 from 0.279 in 1997 (see Chart 1). Despite economic recovery afterwards, income inequality remained higher than the pre-crisis level. The relative poverty ratio, measured by the proportion of those whose equivalent income per household member is below 50 per cent of median income, rose sharply from 8.7 per cent in 1997 to 12.3 per cent in 2006.¹⁰

¹⁰ If self-employed households are included, the income inequality is far greater.

Chart 1: Trends in income inequality and relative poverty



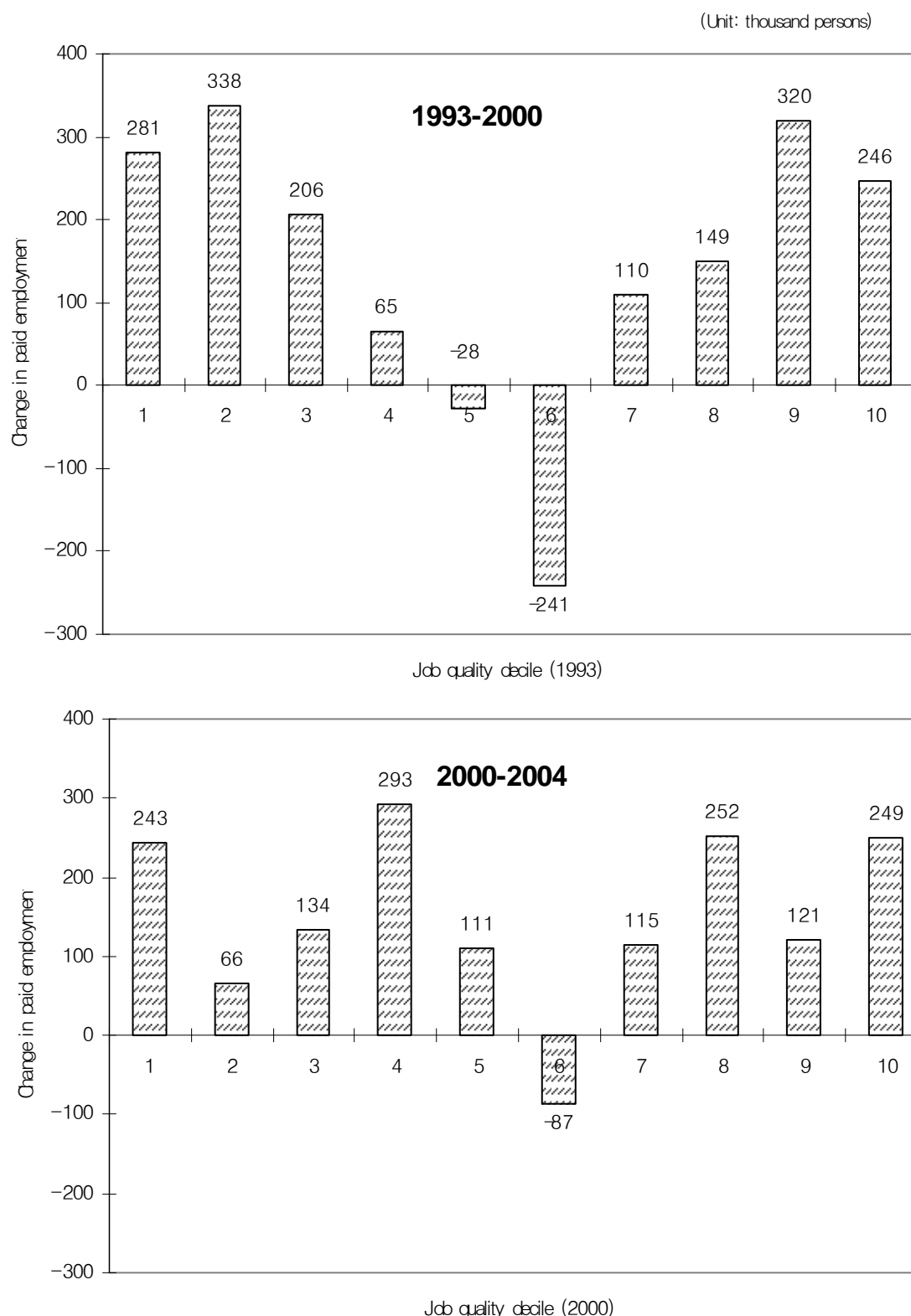
Note: Households whose householder is salary and wage-earner

Source: National Statistical Office, Household Income and Expenditure Survey.

The correlation between increasing non-regular employment and rising wage inequality is associated with the trend towards job polarization. Based on wage-earning data, Cheon and Kim (2005) analyzed job polarization over the last decade. A job cell refers to a job unit defined according to the two-digit industry and occupation classifications. The median income of wage-earners of each cell is used as the indicator of job quality. If the jobs are ranked by this indicator and grouped into ten deciles, the overall change in job quality can be measured in terms of changes in employment volume within each decile (using the first observation year as the base year).

Chart 2 shows net employment changes by job quality deciles. The first panel shows a trend towards job polarization between 1993 and 2000. Job destruction had occurred exclusively in medium-quality jobs (fifth and sixth deciles). It is estimated that about 270,000 of such jobs disappeared. At the same time, job creation concentrated on the top and bottom jobs, and the size of the increases for each category was comparable. As the second panel demonstrates, the contrasting developments were not so strong in recent years, but the overall trend remained the same in that medium quality jobs have continued to be destroyed. During the period of 2000 to 2004, job growth in lower deciles significantly outnumbered that in upper deciles (Cheon and Kim, 2005).

Chart 2: Net employment changes by job quality deciles



Notes: (1) Employment data are taken from the *Economically Active Population Survey* of the National Statistical Office, using two-digit SIC * two-digit SOC cells. Quality deciles are based on two-digit SIC * two-digit SOC median wages taken from *Survey on wage structure* and *Survey on labor conditions of small-sized enterprises* of the Ministry of Labor. (2) The analysis period in the chart was divided before and after 2000 because the industry-occupation classification criteria were significantly modified in 2000.

Source: Cited from Cheon and Kim (2005).

3.2 Corporate benefits and social security

Besides the lower wage for disadvantaged or non-standard work, another important dimension of working conditions is access to corporate fringe benefits and the social insurance system. Substantial differences in access to corporate fringe benefits are found. Employers' fringe benefits are provided to over 80 per cent of regular employees, while it is about a quarter for non-standard employees and less than 10 per cent for disadvantaged employees (see Table 5). The lower level of corporate fringe benefits for non-regular workers appears to be associated with discriminatory treatment as well as shorter tenure for disadvantaged or non-standard work. Furthermore, several employer surveys reveal that low labour costs is one reason why employers have been using more non-regular workers.¹¹ Similar observations can be made to the coverage rate of the social insurance system. Although the government has expanded the coverage of the social insurance schemes after the financial crisis, in reality it is much lower for disadvantaged or non-standard workers than for regular workers. Considering that, as discussed, non-regular employment concentrates on vulnerable groups of workers, it can be said that the current social insurance system plays only a small role in protecting these workers from labour-market risks related to unemployment, health and retirement.¹²

Table 5: Coverage rate of corporate fringe benefits and social insurance (2006)

| | | (Unit: %) | | | | |
|---------------------------|----------------------|----------------|----------------------|---------------------|------------------|--------------------|
| | | <i>Regular</i> | <i>Disadvantaged</i> | <i>Non-standard</i> | <i>Voluntary</i> | <i>Involuntary</i> |
| Social insurance | National pension | 98.1 | 31.3 | 38.2 | 59.3 | 15.8 |
| | Health insurance | 98.3 | 30.6 | 40.0 | 61.3 | 17.4 |
| | Employment insurance | 82.5 | 28.4 | 36.3 | 56.3 | 15.1 |
| Corporate fringe benefits | Retirement allowance | 97.9 | 6.8 | 30.3 | 51.1 | 8.2 |
| | Regular bonus | 95.7 | 10.1 | 27.7 | 47.2 | 6.9 |
| | Overtime payment | 76.9 | 6.8 | 21.5 | 35.8 | 6.4 |
| | Paid holiday leave | 77.3 | 9.4 | 23.1 | 38.6 | 6.7 |
| | Five-day workweek | 51.5 | 11.4 | 28.8 | 43.9 | 12.7 |

Source: National Statistical Office, Supplementary Survey of Economically Active Population.

When increases in non-regular employment are attributed to labour supply factors (and related policy measures are discussed), the issue of training tends to come to the forefront, as is often signified in the term “employability”. It is commonly believed that for non-regular workers, the probability of moving to regular jobs is correlated with training opportunities, which means that the need for training is high among non-regular workers. Yet, empirical evidence has shown consistently that non-regular workers tend to be penalized in terms of training and, therefore, as regular workers already have greater earning and employment security, training gaps may increase inequalities between different employment arrangements (OECD, 2005b). This is also the case in the Republic of Korea, and the penalty appears to be more severe for the non-regular workers.

¹¹ The Workplace Panel Survey, conducted for a sample of 2,000 workplaces, asked managers why they use non-regular workers. The reduction of labour costs (32.1 per cent) and greater flexibility in employment (30.3 per cent) were the most frequent responses (Ahn, 2004).

¹² The likelihood of receiving corporate and social benefits is lower among disadvantaged workers than non-standard workers. This is because disadvantaged workers are more likely to be employed in small firms than non-standard workers.

Table 6 shows participation rates in training over one year by employment arrangements. While, in 2006, 41.6 per cent of regular workers participated in continuous vocational training, the proportion is merely 9.9 per cent for disadvantaged workers, and 22.2 per cent for non-regular workers. The incidence of training is extremely low among disadvantaged workers, as most of them work for smaller firms. Interestingly, the incidence of self-financed training shows little significant difference across different employment arrangements, while employer-provided or government-financed training is biased toward regular workers. It is also important to note that employers with more non-regular workers are also significantly less likely to be involved in any type of training to improve employees' skills (Chung and Lee, 2005). In other words, the degree of reliance on non-regular employment can have negative impacts on employers' decisions on training provision.

Table 6: Participation rate in training by employment arrangements (2006)

(Unit: %)

| | <i>Participation rate</i> | <i>Financed by</i> | | | |
|---------------|---------------------------|--------------------|-----------------------|-------------------|--------------|
| | | <i>Employer</i> | <i>Self-financing</i> | <i>Government</i> | <i>Other</i> |
| Regular | 41.6 | 26.6 | 2.4 | 12.4 | 0.2 |
| Disadvantaged | 9.9 | 6.7 | 2.4 | 0.6 | 0.1 |
| Non-standard | 22.2 | 16.7 | 2.8 | 2.6 | 0.1 |
| Total | 28.0 | 18.9 | 2.6 | 6.4 | 0.1 |

Source: National Statistical Office, Supplementary Survey of Economically Active Population.

3.3 Working hours gaps

Being in non-regular employment may have implications for working hours. For instance, there is some evidence that job insecurity (e.g. temporary employment) may induce workers to increase effort levels (e.g. working hours, work intensity) to improve their chance for secure or regular jobs (Bluestone and Rose, 2000; Green, 2006). In the literature on employment contracts, temporary work has often been considered as a screening device which enables employers to identify workers' productivity. Then, does non-regular employment carry another penalty in working hours in the Republic of Korea?

To address this question, the first thing that needs to be noted is the introduction of the 40-hour workweek in 2003, which contributed to decreases in actual working hours. Table 7 presents trends in annual working hours over the past decade. Annual hours for total employment have been greater than those of dependent employment, because the self-employed work longer than wage workers. The decreasing trend in working hours is revealed, although working hours increased slightly during the economic recovery following the financial crisis, reflecting the dependence of firms on the overtime work of the existing workers without additional hiring. The most notable change in 2005 right after the statutory change of working time is that the decrease in working hours was attributed to reduction of normal working hours, while before that time the decreased working hours were due to a reduction of overtime work. This implies that the reduction of legal normal working hours leads to a decrease in actual working hours.

Table 7: Average annual hours actually worked

| (Unit: hours) | | | | |
|---------------|-------------------------|---------------------------------|---------------|-----------------|
| | <i>Total employment</i> | <i>Dependent employment (1)</i> | | |
| | | <i>Total</i> | <i>Normal</i> | <i>Overtime</i> |
| 1993 | 2,746.4 | 2,476.8 | 2,175.6 | 301.2 |
| 1994 | 2,730.8 | 2,470.8 | 2,169.6 | 300.0 |
| 1995 | 2,736.0 | 2,484.0 | 2,172.0 | 312.0 |
| 1996 | 2,725.6 | 2,466.0 | 2,170.8 | 295.2 |
| 1997 | 2,678.7 | 2,436.0 | 2,155.2 | 280.8 |
| 1998 | 2,610.9 | 2,390.4 | 2,149.2 | 240.0 |
| 1999 | 2,626.6 | 2,498.4 | 2,199.6 | 297.6 |
| 2000 | 2,637.0 | 2,474.4 | 2,166.0 | 308.4 |
| 2001 | 2,626.6 | 2,446.8 | 2,173.2 | 273.6 |
| 2002 | 2,595.3 | 2,409.6 | 2,164.8 | 244.8 |
| 2003 | 2,558.8 | 2,390.4 | 2,156.4 | 234.0 |
| 2004 | 2,538.0 | 2,379.6 | 2,152.8 | 225.6 |
| 2005 | 2,506.7 | 2,350.8 | 2,113.2 | 237.6 |

Note: (1) Data refer to establishments with ten or more employees.

Source: National Statistical Office, Economically Active Population Survey; Ministry of Labor, Report on Monthly Labor Survey.

However, the working hour data in Table 7 are concerned with establishments with ten or more employees and exclude the majority of non-regular workers. As we have already seen from Table 3, establishments with less than ten employees account for 64.8 per cent of disadvantaged workers and 44.5 per cent of non-standard workers. In fact, gaps in working hours between regular and non-regular workers have expanded. The shorter legal working hours mostly affected regular workers, while the working hours of disadvantaged or non-standard workers have remained unchanged. In 2001, disadvantaged workers were working 8.1 per cent more than regular workers, but in 2006, the gap increased to 12.5 per cent (see Table 8). By contrast, non-standard workers were working significantly shorter hours than regular workers due to the irregularity of work (e.g. casual and part-time work), but the gaps narrowed from 11.2 per cent to 7.5 per cent. Therefore, in relative terms, working hours for non-regular workers have increased.

Considering the relative declines in wage earnings for disadvantage workers and the stable trend for non-standard workers as discussed above, these changes in working hours mean that non-regular workers increased their hours to maintain their relative earnings. In the case of disadvantaged workers, such considerable relative increases in working hours were not sufficient enough to maintain their relative earnings. As a result, the ratio of the hourly wage level for disadvantaged workers (compared with regular workers) dropped from 49.9 per cent in 2001 to 45.2 per cent in 2006 (see Table 8). Similarly, the relative hourly wage level of non-standard workers decreased from 64.3 per cent in 2001 to 58.2 per cent in 2006. Admittedly, it is premature to evaluate whether or not this is a transitory phenomenon as the new working time law is being implemented for small enterprises, but there is indication that workers who need legal protection the most are likely to be the group of workers who benefit the least from the 40-hour workweek (Lee, 2003).

Table 8: Working hours and wage by employment arrangement

(Unit: 1,000 Korean won, %)

| | | <i>Usual weekly working hours</i> | | <i>Monthly wage</i> | | <i>Hourly wage</i> | |
|------|---------------|-----------------------------------|---------|---------------------|---------|--------------------|---------|
| | | Mean | % | Mean | % | Mean | % |
| 2001 | Regular | 49.7 | (100.0) | 167.1 | (100.0) | 8,011.8 | (100.0) |
| | Disadvantaged | 53.7 | (108.1) | 91.3 | (54.7) | 3,995.7 | (49.9) |
| | Non-standard | 44.1 | (88.8) | 87.4 | (52.3) | 5,149.6 | (64.3) |
| 2006 | Regular | 46.6 | (100.0) | 227.0 | (100.0) | 11,690.9 | (100.0) |
| | Disadvantaged | 52.4 | (112.5) | 117.1 | (51.6) | 5,287.9 | (45.2) |
| | Non-standard | 43.1 | (92.5) | 119.8 | (52.8) | 6,806.1 | (58.2) |

Source: National Statistical Office, Supplementary Survey of Economically Active Population.

4. Non-regular employment and wage discrimination

We have seen that non-regular employment involves substantial “penalties”, not only in job security, but also in other aspects of employment conditions such as wages earnings, corporate benefits and social security, and working time. However, it needs to be remembered that non-regular employment is associated with personal and job characteristics, as discussed in Section 2. Thus, one might say that the wage gaps illustrated in Section 3 may simply reflect labour productivity.

The simplest way to measure wage gaps while controlling the differences in personal and job characteristics is to include each type of employment arrangement as a dummy variable in an OLS wage equation. In the wage equation we developed for this, we controlled the variables of gender and marital status, age and age square, educational level, tenure and tenure square, industry, occupation and firm size. The dependent variable is the logarithm of hourly wages. The regression results are shown in column 1 of Table 9. After controlling personal and job characteristics, wage gaps remain considerable. With other things being equal, disadvantaged workers earned 18.4 per cent less than regular employees, while non-standard employees earn 11.6 per cent less than regular employees.

However, these estimates are based on the rather unrealistic assumption that workers of different employment arrangements have the same rewards for their personal and job characteristics in the absence of discrimination. In order to estimate the extent of discrimination that non-regular workers are subject to, we have estimated OLS wage equations separately for each type of employment arrangement. Then, by the Oaxaca decomposition of wage differentials, we have attempted to find out the extent to which wage gaps between different types of employment arrangements are attributed to differences in personal and job characteristics (productivity effect) or differences in returns (price effect).

Table 9: OLS wage equations by employment arrangements (2005)

| | <i>All paid employment</i> | | | <i>Regular work</i> | | | <i>Disadvantaged work</i> | | | <i>Non-standard work</i> | | |
|---|----------------------------|-----------|-----|---------------------|-----------|-----|---------------------------|-----------|-----|--------------------------|-----------|-----|
| | Coef. | Std. Err. | | Coef. | Std. Err. | | Coef. | Std. Err. | | Coef. | Std. Err. | |
| Employment arrangement | | | | | | | | | | | | |
| Disadvantaged work | -0.184 | 0.008 | *** | | | | | | | | | |
| Non-standard work | -0.116 | 0.007 | *** | | | | | | | | | |
| Gender/marital status | | | | | | | | | | | | |
| Unmarried man | -0.102 | 0.009 | *** | -0.094 | 0.012 | *** | -0.120 | 0.018 | *** | -0.099 | 0.019 | *** |
| Married man without spouse | -0.072 | 0.017 | *** | -0.038 | 0.026 | | -0.102 | 0.034 | *** | -0.080 | 0.029 | *** |
| Unmarried women | -0.249 | 0.011 | *** | -0.235 | 0.014 | *** | -0.285 | 0.021 | *** | -0.217 | 0.022 | *** |
| Married women | -0.289 | 0.008 | *** | -0.255 | 0.011 | *** | -0.356 | 0.015 | *** | -0.245 | 0.015 | *** |
| Married women with spouse | -0.249 | 0.014 | *** | -0.316 | 0.028 | *** | -0.338 | 0.023 | *** | -0.162 | 0.023 | *** |
| Age | | | | | | | | | | | | |
| Age | 0.051 | 0.002 | *** | 0.050 | 0.003 | *** | 0.048 | 0.003 | *** | 0.048 | 0.003 | *** |
| Agesq | -0.001 | 0.000 | *** | -0.001 | 0.000 | *** | -0.001 | 0.000 | *** | -0.001 | 0.000 | *** |
| Education level | | | | | | | | | | | | |
| Elementary school | -0.134 | 0.012 | *** | -0.193 | 0.023 | *** | -0.079 | 0.020 | *** | -0.131 | 0.019 | *** |
| Middle school | -0.101 | 0.010 | *** | -0.196 | 0.018 | *** | -0.047 | 0.017 | *** | -0.085 | 0.016 | *** |
| Two-year college | 0.054 | 0.009 | *** | 0.031 | 0.011 | *** | 0.018 | 0.017 | | 0.093 | 0.019 | *** |
| College | 0.195 | 0.008 | *** | 0.168 | 0.010 | *** | 0.120 | 0.018 | *** | 0.239 | 0.018 | *** |
| Graduate school | 0.277 | 0.016 | *** | 0.254 | 0.017 | *** | -0.099 | 0.059 | * | 0.359 | 0.037 | *** |
| Ten | | | | | | | | | | | | |
| Ten | 0.033 | 0.001 | *** | 0.025 | 0.001 | *** | 0.038 | 0.004 | *** | 0.048 | 0.003 | *** |
| Tensq | 0.000 | 0.000 | *** | 0.000 | 0.000 | *** | -0.001 | 0.000 | *** | -0.001 | 0.000 | *** |
| Firm size | | | | | | | | | | | | |
| 1-4 | -0.299 | 0.011 | *** | -0.368 | 0.019 | *** | -0.128 | 0.042 | *** | -0.259 | 0.024 | *** |
| 5-9 | -0.224 | 0.011 | *** | -0.246 | 0.014 | *** | -0.072 | 0.042 | * | -0.186 | 0.024 | *** |
| 10-29 | -0.185 | 0.010 | *** | -0.195 | 0.011 | *** | -0.037 | 0.042 | | -0.152 | 0.023 | *** |
| 30-99 | -0.159 | 0.010 | *** | -0.170 | 0.010 | *** | -0.047 | 0.043 | | -0.122 | 0.023 | *** |
| 100-299 | -0.125 | 0.011 | *** | -0.146 | 0.011 | *** | 0.012 | 0.047 | | -0.085 | 0.026 | *** |
| Union membership status | | | | | | | | | | | | |
| Non-union firm | -0.053 | 0.009 | *** | -0.071 | 0.010 | *** | 0.000 | 0.039 | | -0.104 | 0.025 | *** |
| Ineligible for union membership in union-organized firm | -0.024 | 0.013 | ** | 0.023 | 0.015 | | -0.087 | 0.046 | * | -0.086 | 0.029 | *** |
| Eligible, but unaffiliated to union in union-organized firm | 0.006 | 0.014 | | -0.004 | 0.014 | | 0.104 | 0.064 | | -0.011 | 0.040 | |
| Intercept | 7.936 | 0.039 | *** | 8.053 | 0.065 | *** | 7.699 | 0.089 | *** | 7.760 | 0.073 | *** |
| Adj R-squared | | 0.623 | | | 0.595 | | | 0.355 | | | 0.456 | |
| Number of obs | | 26,083 | | | 11,137 | | | 5,140 | | | 9,806 | |

Notes: (1) *** denotes significance at the 1% level, ** at the 5% level, and * at the 10% level. (2) Reference group is regular, married, male worker with high school education level, and union membership in a firm with over 300 employees. (3) Estimates for industry and occupation variables are not presented here. Source: National Statistical Office, Supplementary Survey of Economically Active Population.

More specifically, assume that wages for group j can be written as $W^j = X^j \beta^j + \varepsilon^j$ where X^j represent a set of personal and job characteristics. This wage equation is estimated for workers in each group and then the wage gap can be expressed as:

$$W^r - W^c = X^r \beta^r - X^c \beta^c,$$

Where $W^r = X^r \beta^r + \varepsilon^r$ for the reference group (regular workers)

$W^c = X^c \beta^c + \varepsilon^c$ for the comparison group (disadvantaged or non-regular workers)

Then, the difference becomes:

$$W^r - W^c = (X^r - X^c) \beta^r + X^c (\beta^r - \beta^c)$$

The first term on the right-hand side is the productivity effect, which represents the wage gap due to differences in personal and job characteristics. The second term is the price effect, which stands for the wage gap due to differences in the returns to similar characteristics in different types of employment arrangements. The second component captures both the effects of discrimination and unobserved group differences in productivity and tastes. Therefore, the second term can be interpreted as the maximum effects of discrimination.

Columns two to four of Table 9 show regression results for each type of employment arrangement. They show that the explanation power of the wage equation is lower for disadvantaged or non-standard work than for regular work. It implies that there are unexplained forces (such as discriminatory treatments) for disadvantaged or non-standard workers. The higher coefficient of constant for regular workers also means that large fractions of wage differentials remain unexplained for non-regular workers, even after personal and job characteristics are taken into account. In addition, we found substantial differences in the coefficients of variables between different types of employment arrangements. This implies differences returns to personal and job characteristics between different arrangements: for example, firm-size wage premium is the highest for regular work, while it is the lowest for disadvantaged work.

Table 10 displays the results of wage-differentials decomposition. It assumes that a non-discriminatory wage structure is given for regular workers. The proportion of the wage gap due to the differences of return or discrimination between regular and disadvantaged jobs is 24.1 per cent. It is 20.7 per cent between regular and non-standard work. These facts reveal that disadvantaged workers are suffering more from unequal treatment than non-standard workers. It is notable that the largest factor of wage gaps due to differences in characteristics is tenure; in other words, the short tenure due to unstable employment is the greatest factor causing the wage gap. Lower wages for disadvantaged or non-standard work are also due to the fact that they work in smaller firms or low-paid occupations.¹³

¹³ Similar facts are found in Ahn, 2004.

Meanwhile, the role of unions has little influence on the wage gap between different types of employment arrangements.¹⁴

Table 10: Oaxaca decomposition of wage differentials between employment arrangements

| | <i>Regular/disadvantaged work</i> | | <i>Regular/non-standard work</i> | |
|------------------------------|-----------------------------------|---------|----------------------------------|---------|
| Total difference in log wage | 0.7735 | (100.0) | 0.6355 | (100.0) |
| Characteristics/endowments | 0.5872 | (75.9) | 0.5041 | (79.3) |
| Gender/marriage | 0.0700 | (9.0) | 0.0585 | (9.2) |
| Age | 0.0288 | (3.7) | 0.0317 | (5.0) |
| Education | 0.0839 | (10.9) | 0.0830 | (13.1) |
| Tenure | 0.1325 | (17.1) | 0.1300 | (20.5) |
| Industry | 0.0388 | (5.0) | 0.0062 | (1.0) |
| Occupation | 0.0906 | (11.7) | 0.0973 | (15.3) |
| Firm size | 0.1192 | (15.4) | 0.0807 | (12.7) |
| Union membership status | 0.0233 | (3.0) | 0.0166 | (2.6) |
| Returns/discrimination | 0.1863 | (24.1) | 0.1313 | (20.7) |

Note: (1) The reference group without absence is assumed to be regular workers. (2) Numbers in parentheses are the contribution of each variable to total difference in log wage level.

Source: National Statistical Office, Supplementary Survey of Economically Active Population.

¹⁴ Hwang (2005), using industry-level data, shows that union density has a negative correlation with wage inequality as well as with wage differentials by firm size. The union density also has little significant correlation with wage differential by the status in employment.

5. Involuntary non-regular employment and transitions to regular employment

The analysis so far has made clear that non-regular employment is associated with inferior employment conditions which can be attributed to a large extent to discrimination. The question is then why workers have taken non-regular jobs. One might say that non-regular workers like some aspects of their current jobs which are not readily captured in the standard wage equation or regression analyses. As has often been argued in European countries, temporary and part-time jobs could provide an opportunity for workers with family responsibilities to participate in paid work. The upshot is that non-regular employment could be the result of workers' choices.

An interesting way of investigating these issues is to see the extent to which non-regular workers have taken their current jobs on a voluntary basis. In the 2006 SSEAP, respondents were asked "Did you choose current job voluntarily or involuntarily?", and then to select one main reason from 11 options: "because I (1) am satisfied with working conditions including wage and working hours; (2) am satisfied with job security; (3) need money instantly; (4) can't find any other satisfactory jobs other than this; (5) can't find any other job that matches with my skill or career; (6) have a plan to move to another job sooner or later with having experience in this job; (7) have to also take care of children and/or home production; (8) have to participate in vocational training or other further education; (9) can get money just as much as I do in this job; (10) have freedom to control working hours flexibly at this job; and (11) have any other reasons". These two questions were asked separately, which enables us to determine the reasons for their reported voluntariness and involuntariness.

Table 11: Reasons for choosing current arrangements of employment (2006)

(Unit: %)

| | | <i>Regular</i> | <i>Disadvantaged</i> | <i>Non-standard</i> |
|---------------|-------------|----------------|----------------------|---------------------|
| Voluntariness | Voluntary | 92.8 | 46.6 | 51.5 |
| | Involuntary | 7.2 | 53.4 | 48.5 |
| Main reason | (1) | 42.2 | 21.8 | 21.7 |
| | (2) | 44.1 | 11.5 | 14.4 |
| | (3) | 4.0 | 35.2 | 31.6 |
| | (4) | 1.8 | 10.2 | 7.5 |
| | (5) | 0.7 | 2.7 | 1.9 |
| | (6) | 4.7 | 9.0 | 5.0 |
| | (7) | 0.1 | 1.6 | 4.4 |
| | (8) | 0.1 | 2.2 | 4.2 |
| | (9) | 1.7 | 3.9 | 6.4 |
| | (10) | 0.3 | 1.4 | 2.2 |
| | (11) | 0.3 | 0.5 | 0.7 |

Source: National Statistical Office, Economically Active Population Survey and its supplementary survey.

The results of these questions are provided in Table 11. Voluntary choice explains 92.8 per cent of regular jobs, while the ratio is almost halved for the disadvantaged (46.6 per cent) and non-standard (51.5 per cent). The main motives among regular workers for choosing their present jobs are "because I am satisfied with working conditions" and "because I am satisfied with job security". Meanwhile, disadvantaged or non-standard workers choose their jobs involuntarily "because I need money instantly" or "because I can't find any other satisfactory jobs other than this". Thus, the involuntary nature of non-

regular employment is basically related to the under-provision of regular jobs in the labour market (Lee and Eyraud, 2007).

If about half of non-regular workers are involuntarily employed, the next question to be asked is the extent to which they succeed in moving to regular jobs. This issue has been discussed in the analogy of “dead-end” versus “stepping stones”. Even if non-regular employment involves inferior and discriminatory conditions, workers could accumulate their experiences and skills in these jobs as entry jobs and then move to regular jobs. For instance, Table 11 shows that 9.0 per cent of disadvantaged workers and 5.0 per cent of non-standard workers reported that they took non-regular jobs in order to obtain the skills and experiences which are required for regular jobs.

Table 12: Transition rates across labour market status over a year

(Unit: %)

| <i>2006</i> | Regular | Disadvantaged | Non-standard | Employer | Own-account workers | Unpaid family workers | Unemployed | Not in the labour force |
|-------------------------|---------|---------------|--------------|----------|---------------------|-----------------------|------------|-------------------------|
| <i>2005</i> | | | | | | | | |
| Regular | 83.1 | 2.0 | 8.9 | 0.6 | 1.1 | 0.0 | 1.2 | 3.1 |
| Disadvantaged | 7.3 | 54.8 | 19.2 | 1.0 | 3.0 | 0.7 | 3.5 | 10.4 |
| Non-standard | 8.1 | 12.6 | 58.4 | 0.9 | 2.5 | 0.6 | 2.7 | 14.1 |
| Employer | 2.4 | 1.3 | 2.0 | 79.4 | 9.2 | 0.8 | 0.8 | 4.0 |
| Own-account workers | 1.1 | 1.8 | 3.9 | 3.5 | 81.2 | 1.1 | 0.9 | 6.4 |
| Unpaid family workers | 1.0 | 2.1 | 2.3 | 0.8 | 5.1 | 77.2 | 0.0 | 11.6 |
| Unemployed | 12.3 | 17.7 | 24.2 | 1.3 | 4.4 | 0.7 | 15.6 | 23.9 |
| Not in the labour force | 1.6 | 2.8 | 6.4 | 0.4 | 2.2 | 1.3 | 1.3 | 83.9 |

Source: Year-to-year matched data from the National Statistical Office, Supplementary Survey of Economically Active Population.

To discuss this issue, Table 12 estimates transition rates between different employment arrangements between 2005 and 2006. Data are constructed by linking consecutive yearly information on the same individuals from the SSEAP. Transition rates are calculated by the labour force status for two consecutive years. First of all, only a small proportion of non-regular workers shifted to regular jobs during the period in question. About 7.3 per cent of disadvantaged workers moved to regular jobs, while a slightly higher proportion (8.1 per cent) of non-standard workers experienced such changes. Interestingly, much higher proportions of non-regular workers exited from the labour market (10.4 per cent of disadvantaged workers and 14.1 per cent of non-standard workers). This means that, for non-regular workers, the risk of non-employment (unemployed or inactive) is much higher than the chance of transition to regular employment.

Second, among disadvantaged workers, the most frequent pattern of transition is to shift to another type of non-regular employment: non-standard employment. Slightly less than 20 per cent of disadvantaged workers moved to non-standard employment. This is in line with our earlier observation that, in the first half of 2000s, there have been compositional changes towards non-standard employment (see Section 2). The reverse transition from non-standard to disadvantaged employment is less frequent but significant (12.6 per cent).

Third, the risk of non-employment for disadvantaged (13.9 per cent) and non-standard workers (16.8 per cent) is more than threefold higher than for regular workers (4.3 per cent). These facts imply that disadvantaged or non-standard jobs are unstable and have little upward mobility. It is also clear that non-regular employment is the major source for

employment adjustments or numerical “flexibility” in the labour market. If we look at transition rates by demographical characteristics (the results are not presented in this paper), the likelihood for an upward move is lower for female workers, older workers, and less educated workers (Lee and Yoo, 2007). This confirms that the likelihood of being trapped into non-regular employment is higher among vulnerable groups of workers.

Fourth, the changes the unemployed had experienced deserve attention. The most frequent pattern of transition is to get a non-standard job (24.2 per cent), narrowly followed by inactivity (23.9 per cent). Another significant proportion (17.7 per cent) became disadvantaged workers. About 12.3 per cent of them managed to get a regular job. If the figures are taken more seriously, they may be seen as “ominous”: when only those who got paid employment are considered, the likelihood of non-regular employment is 3.4 times higher than that of regular employment (41.9 per cent versus 12.3 per cent). Therefore, the ratio of non-regular employment for new entrants is by far much higher than the current ratio for those who have already been employed (83.4 per cent versus 56.7 per cent). Given the low transition rates from non-regular to regular jobs, the predominance of non-regular employment among new entrants would further increase the already high ratio of non-regular employment.

Table 13: Transition rates for non-regular workers

(Unit: %)

| | 2006 | Regular | Disadvantaged | Non-standard | Employer | Own-account workers | Unpaid family workers | Unemployed | Not in the labour force |
|----------------------|------|---------|---------------|--------------|----------|---------------------|-----------------------|------------|-------------------------|
| 2005 | | | | | | | | | |
| Disadvantaged | | 7.3 | 54.8 | 19.2 | 1.0 | 3.0 | 0.7 | 3.5 | 10.4 |
| • Voluntary | | 7.3 | 58.5 | 18.0 | 1.5 | 3.6 | 0.9 | 2.8 | 7.5 |
| • Involuntary | | 6.7 | 52.8 | 20.4 | 0.6 | 2.2 | 0.5 | 4.9 | 11.9 |
| Non-standard | | 8.1 | 12.6 | 58.4 | 0.9 | 2.5 | 0.6 | 2.7 | 14.1 |
| • Voluntary | | 11.8 | 9.1 | 63.2 | 1.0 | 2.5 | 0.5 | 2.1 | 9.9 |
| • Involuntary | | 5.4 | 16.4 | 56.4 | 1.1 | 2.7 | 0.6 | 3.6 | 13.9 |

Source: Year-to-year matched data from the National Statistical Office, Supplementary Survey of Economically Active Population.

Finally, it is logical to assume that involuntary non-regular workers are more likely than voluntary non-regular workers to succeed in shifting to regular jobs. Obviously, job search efforts will be stronger and, if other things are equal, the chance of job transition will be higher among involuntary workers. As Table 13 indicates, however, the opposite is the case for the Republic of Korea. As far as disadvantaged workers are concerned, the frequency of transition to regular jobs is in fact higher among voluntary workers, although the difference is small. At the same time, involuntary disadvantaged workers are more likely to be exposed to labour market risks such as unemployment and inactivity. Such differences are larger in the case of non-standard employment. Voluntariness is associated with a significantly higher chance for regular jobs. These findings are puzzling which need further research.

6. Concluding remarks

With the stronger pressure of globalization triggered by the financial crisis in 1997, a series of reforms have been undertaken to increase flexibility in the Korean labour market, which has profound implications for employment conditions for individual workers. Such reforms have certainly contributed to economic restructuring, but also to prompting short-term dynamism. It has been suggested that one important consequence of these developments is increases in non-regular workers and discriminatory treatments against them in employment conditions.

This paper has investigated the extent and nature of non-regular employment in the Republic of Korea. In doing so, a set of key questions, which have arisen from the existing literature, has been addressed. First, in order to synthesize the debates on the definition and size of non-regular employment, we have classified paid employment as three major groups: regular, disadvantaged and non-standard employment. Non-regular employment refers to the two latter groups. Our estimation has shown that the size of regular employment has been stable overall in the first half of the 2000s, but changes have occurred in the composition of non-regular employment with an increasing share of non-standard employment. Second, non-regular work has increased vulnerability, as it falls disproportionately on vulnerable groups of workers, such as female, older, less-educated, low-skilled workers, and SME workers. Third, we have demonstrated that the gaps in employment conditions between regular and non-regular workers are substantial and have increased in recent years. Increasing wage inequalities have also contributed to worsening income inequality and polarizing the labour market. Non-regular workers are also penalized in corporate benefits and social security. It has also been made clear that non-regular workers are relatively working more to maintain their already low-wage earnings. As a result, their hourly earnings in the relative term have, on average, decreased by between 4 and 6 percentage points. Third, a significant part of such gaps can be attributed to discrimination. For instance, while 76 per cent of the wages gap between regular and disadvantaged workers can be explained by demographic and occupational characteristics, the remaining 24 per cent is due to discrimination. Finally, upward mobility, measured by the likelihood for non-standard and disadvantaged workers to move to regular jobs, is also very limited. There is indication that non-regular employment is predominant among new entrants, which may increase the already high ratio of non-regular employment.

These findings suggest that the positive roles of non-regular employment, which are often suggested in the literature, are limited and probably minimal. While the sheer size of non-regular employment demonstrates great flexibility in the labour market, the costs involved (expressed in gaps in employment conditions) are exceedingly high. In addition, our studies have shown that the idea of non-regular employment as a “stepping stone” does not have much relevance in the Republic of Korea. Obviously our findings open up a broad range of policy questions, including the neo-liberal reforms which have been undertaken since the financial crisis, but this goes beyond the scope of this paper.

References

- J. Ahn (2004): *Nonstandard employment arrangements in Korea: What have we learned*, paper presented to the International Conference on International Perspectives on Labour Market Institutions (Seoul: Korea Labor Institute).
- P. Auer, J. Berg and I. Coulibaly (2005): “Is a stable workforce good for productivity”, in *International Labour Review*, Vol. 144, No. 3, pp. 319-343.
- B. Bluestone and S. Rose (2000): “The enigma of working time trends”, in L. Golden and D. Figart (eds.): *Working time: International trends, theory and policy perspectives* (London: Routledge).
- A. Booth, J. Dolado and J. Frank (2002): “Symposium on temporary work: Introduction”, in *Economic Journal*, Vol. 112, June, pp. F181-F188.
- A. Booth, M. Francesconi and J. Frank (2002): “Temporary jobs: Stepping stones or dead ends?”, in *Economic Journal*, Vol. 112, June, pp. F189-F213.
- B. Cheon and B. Kim (2005): “Polarization of the labor market and policy tasks: With focus on job polarization”, in *e-Labor News*, No. 46, 28 September, at www.kli.re.kr.
- K. Choi (2001): “A study on the definitions of employment status to measure employment structure changes and their sizes”, in *Korean Journal of Labor Economics*, Vol. 24, No. 2 (in Korean).
- Y. Choi and K. Bae (2005): *Cooperation between labour and management and job creation*, paper presented to the forum for Korean independence, 60-year commemoration (Seoul) (in Korean).
- J. Chung and B. Lee (2005): “Flexibility, turnover and training”, in *e-Labor News*, No. 41, 20 April, at www.kli.re.kr.
- F. Eyraud and D. Vaughan-Whitehead (eds.) (2007): *The evolving world of work in the enlarged EU: Progress and vulnerability* (Geneva, ILO).
- F. Green (2006): *Demanding work: The paradox of job quality in the affluent economy* (Princeton, Princeton University Press).
- D. Hwang (2005): “A study on the impact of union density on industry-level wage differentials in Korea”, in *Trends and Perspectives*, Vol. 63 (in Korean).
- Y. Kim (2004): *Labour market flexibility and non-regular employment* (Seoul: Korea Labor and Society Institute) (in Korean).
- B. Lee and B. Yoo (2007): *From flexibility to segmentation: Changes in employment patterns in Korea*, paper presented to the Workshop on Globalization and Changes in Employment Conditions in Asia and the Pacific (Seoul: Korea Labor Institute and ILO).
- S. Lee and F. Eyraud (2007): *Globalization, deregulation, and workers: Changes and outcomes*, paper presented to the Workshop on Globalization and Changes in Employment Conditions in Asia and the Pacific (Seoul: Korea Labor Institute and ILO).

-
- S. Lee (2003): *Political economy of working time in Korea: Tensions in the reduction of working hours*, paper presented to the 15th Annual Meeting on Socio-Economics, Aix-en-Provence, France (Geneva, ILO).
- OECD (2006): *OECD Employment Outlook* (Paris).
- (2005a): *The labour market in Korea: Enhancing flexibility and raising participation*, Economics Department Working Papers No. 469 (Paris).
- (2005b): “Upgrading workers’ skills and competences”, in *Employment Outlook* (Paris).
- (2002): “Tackling the measure of temporary employment”, in *Employment Outlook* (Paris).
- G. Schmid (1998): *Transitional labour markets: A new European employment strategy*, WZB discussion paper no. FS I 98-206 (Berlin).
- I. Yi and B. Lee (2005): “Developmental strategies and unemployment policies in Korea”, in H. Kwon (ed.): *Transforming the developmental welfare state in East Asia* (New York: Palgrave Macmillan), pp. 143-169.